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Top Secret



June 11, 1974

25X1



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National Intelligence Bulletin

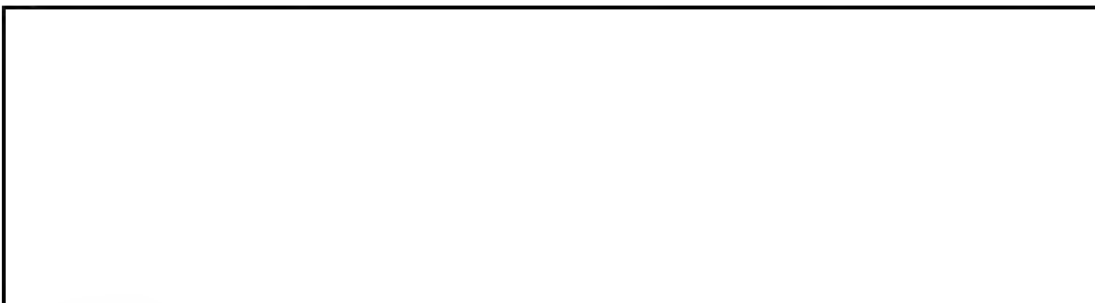
June 11, 1974

CONTENTS

ITALY: Rumor government resigns. (Page 1)

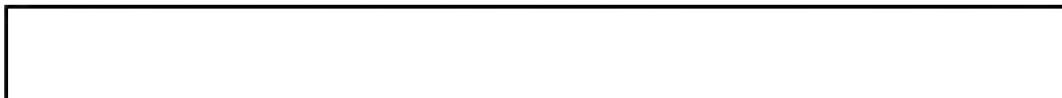
FRANCE: Cancellation of one nuclear test probably to avoid criticism. (Page 3)

THAILAND: Labor unrest creates political problems for new Sanya government. (Page 4)



25X1

URUGUAY: President agrees to demands by the military. (Page 9)



25X1

FOR THE RECORD: (Page 11)

National Intelligence Bulletin

June 11, 1974

ITALY

A fundamental dispute over the critical state of the economy was responsible for the resignation yesterday of Italian Prime Minister Rumor's center-left government. The coalition partners disagreed on how to combat the enormous trade deficit and record-breaking inflation.

Italy's largest party, the Christian Democrats, insisted on monetary restraints and across-the-board tax increases to curtail domestic demand. The Socialists favored loosening credit and making tax hikes selective to shield low-income groups.

President Leone has asked Rumor to head a caretaker regime during negotiations for a new government. Two center-left governments have already collapsed this year over economic austerity measures, and the thought of forming still another will not generate much enthusiasm. The center-left formula, however, is easier to criticize than to replace.

If the negotiations are contentious and long, they will add weight to the argument of the Communist Party, Italy's second largest, that the country cannot be governed effectively without its participation.

The severity of the economic situation is probably the most important factor favoring a quick solution. The Socialists, as well as the Communists, have become alarmed over increasing neofascist violence in recent months, and they may come to believe that a climate of violence would be nourished by a lengthy political stalemate and further economic disruption. They might agree to some austerity measures now, in return for promises of support for their programs once the economy is in better order.

Rumor's resignation was preceded by an announcement that the trade deficit in April had again topped \$1 billion, pushing the deficit in the first four months of

National Intelligence Bulletin

June 11, 1974

the year to over \$4 billion. About half this deficit results from petroleum imports. Also contributing is a growing demand for quality food products, which Italy's backward agricultural system cannot provide. The demand has resulted from rapidly rising wages in recent years.

Italy has been unable to obtain foreign loans to cover the deficit, except for a \$1.2-billion standby credit from the International Monetary Fund. The head of the Italian central bank claims that the country's credit has been exhausted.

The government has resisted devaluation because its short-term effect would be to aggravate inflation, which is already running at 25 percent.

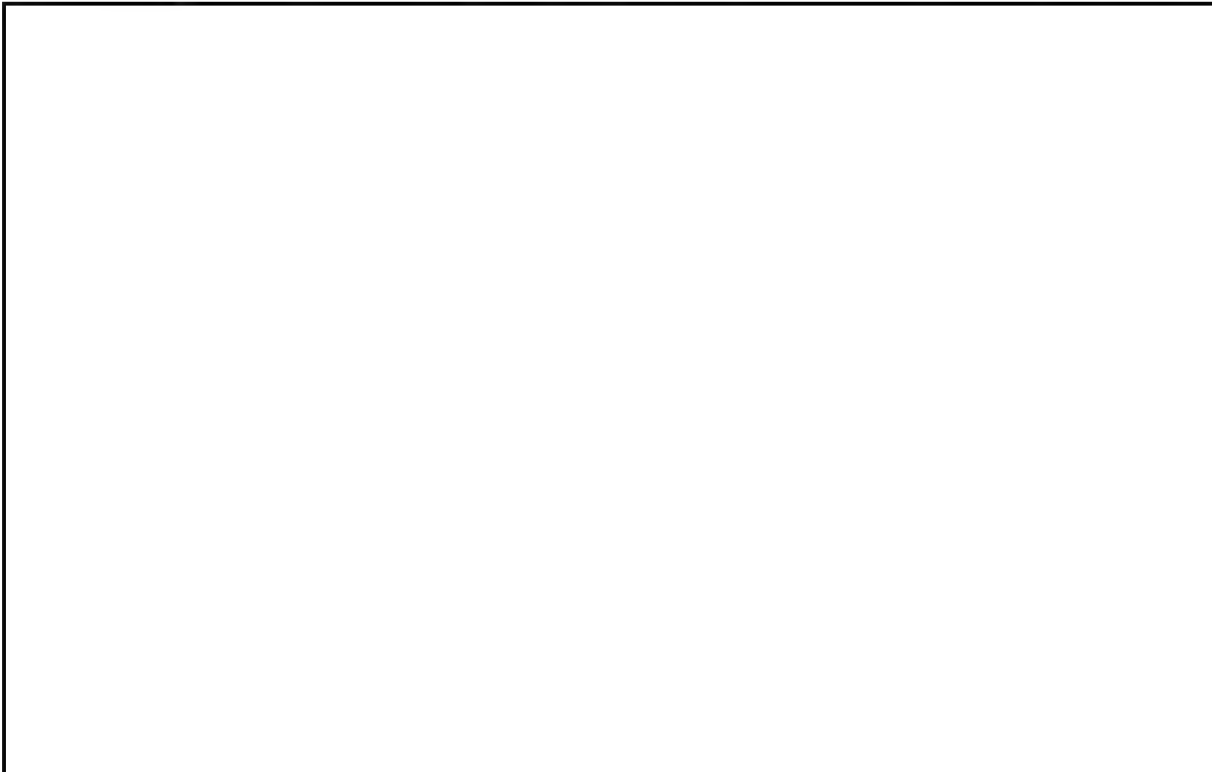
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National Intelligence Bulletin

June 11, 1974

FRANCE

President Giscard d'Estaing's cancellation yesterday of one of the scheduled atmospheric nuclear tests in the 1974 series probably is designed to avoid intensified criticism of the testing. He cited "financial reasons" for the cancellation, but since most of the financial investment in the weapons is centered in research and development rather than testing, the savings would be relatively small.



25X1

National Intelligence Bulletin

June 11, 1974

THAILAND

Labor unrest is heating up the political situation in Bangkok. Thousands of textile workers, fearful of massive layoffs, occupied the Labor Department compound over the weekend. Student radicals have joined the demonstrators and are encouraging them to strike. Unless the situation can be defused quickly, the strike movement may spread and threaten the stability of the two-week-old Sanya government.

Radical student and labor leaders are using the protests as a platform to voice their own political views. Their speeches have taken on an antigovernment and anti-US tone that is sure to alarm the more conservative ruling elite.



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National Intelligence Bulletin

June 11, 1974

URUGUAY

President Bordaberry's accession to a number of demands by the military may have strengthened his hold on the office, at least for the time being.

Top officers have met twice with the President since a squabble within the army resulted in the replacement late last month of the relatively moderate army minister and some of his supporters. The officers presented Bordaberry with a requirement that certain cabinet members be replaced with individuals more to their liking, and that all subministers be active-duty military men. While the President will participate in the selection of the new ministers, his already eroded authority clearly is diminished further.

The President also lost a debate in which he took exception to the officers' proposal that price reductions be decreed for meat, kerosene, and other items. Bordaberry reluctantly agreed to sign the reductions into law. Finally, the military have placed four colonels in positions of responsibility in the municipal government of Montevideo. [REDACTED]

25X1

Page Denied

National Intelligence Bulletin

June 11, 1974

FOR THE RECORD

Israel-Egypt: An Israeli patrol boat seized a small Egyptian cargo vessel on the morning of June 9 and escorted it to the port of Haifa. Israel claimed that the vessel penetrated Israeli territorial waters.

25X1

The Egyptian vessel was on its way to Lebanon when, according to the Israeli radio, it apparently encountered navigational problems and strong winds which forced it toward the Israeli coast. Israeli officials are not highlighting the incident and presumably will release the vessel soon, as they did in a similar incident earlier this year.

25X1

25X1

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25X1



Top Secret



25X1